

STATE OF WASHINGTON



OFFICE OF  
INSURANCE COMMISSIONER

## **LEADER NATIONAL INSURANCE COMPANY**

### **MARKET CONDUCT EXAMINATION**

**AUGUST 1, 1997 - JULY 31, 1998**

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Seattle Washington

Deborah Senn  
Insurance Commissioner  
Olympia, Washington 98504

Pursuant to your instructions and in compliance with the laws of the State of Washington,  
a market conduct examination has been made of

Leader National Insurance Company

4100 Harry Hines Blvd.

Dallas, Texas 75219

and this report of examination is respectfully submitted.

This is the second Market Conduct Examination of Leader National Insurance Company. The prior exam was completed in February 1995.

This examination was limited to the activities relating to claims closed for Washington insureds from August 1, 1997 through July 31, 1998, except where otherwise noted. The examination included a review of the following areas:

- Complaint Handling
- Claim Settlement Practices

The examination was performed in Mountlake Terrace, Washington at the Regional Claims office.

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## **EXAMINATION REPORT CERTIFICATION**

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by Sally Anne Carpenter and Shirley M. Merrill, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

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Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

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## **HISTORY AND OPERATIONS**

Leader National Insurance Company was incorporated March 20, 1963 under the laws of Ohio as Northstar Insurance Company. In September 1963 the present title was adopted and the company began business in December of 1993. The company was acquired by American Premier Underwriters in May 1993.

Leader National Insurance Company is licensed to market personal and commercial auto coverage in Washington.

Administration of the company is under the direction of Gene S. Yerant, President, who also serves as the President of Transport Insurance Company.

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## **COMPLAINTS**

The purpose of this section of the examination was to review the Company's complaint handling procedures and compliance with WAC 284-30-360(2), which requires insurers to respond to inquiries from the Insurance Commissioner within 15 working days from the receipt of the inquiry. The complaints were also reviewed for possible adverse trends in claim handling or underwriting.

The Company has written complaint procedures. The complaint logs track only insurance department complaints. The legal department is responsible for initial logging and tracking of complaints. Response to complaints is the responsibility of the department which generated the complaint.

In reviewing the complaint logs, it was noted that the Company had received 64 complaints in 1996, 29 in 1997, and 25 through September 1998. These included

complaints on underwriting, claims, and customer service. Twenty-six claim-related complaints were selected for examination.

**Our findings are as follows:**

One file (claim number 2725114) did not meet the required time frame for response to an inquiry from the Insurance Commissioner's office.

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**CLAIMS**

There were 3836 claims closed during the examination period. The examiners selected 355 closed claims for review. The files were examined for compliance with laws regarding fair claims practices, total loss settlement, salvage disposal, and subrogation. Five files contained payment processing errors that did not constitute violations. These files were returned to the company for corrections resulting in payments of \$506.72 to insureds.

**Our findings are as follows:**

RCW 48.05.190 requires insurers to do business in their own legal name. Six files contained correspondence that did not identify the insurer. These violations occurred because some corporate stationary was generic and did not identify the specific insuring company in either the letter head or the signature block.

1062899	1052172	1066952
1050262	1050206	1043622

WAC 284-30-330(9) defines an unfair claims practice. Payments to insureds or beneficiaries are to be accompanied by a statement setting forth the coverage under which the payments are made. Twelve claims were in violation of this regulation as they contained documentation of payments with no explanation of coverage under which the payment was made.

2733952	1066502	1070663	2734043
1054435	1068564	1054041	1050802
1070663	1064168	1050379	1043620

WAC 284-30-330(16) defines an unfair claims practice. This regulation requires the insurer to establish and implement reasonable standards for the processing and payment of claims once the obligation to pay has been reasonably established. Except in those instances where the time for payment is governed by law or contract, the check should be delivered within 15 business days.

There were 9 files with payments which were delayed for the following reasons:

- The initial assignment to a claim handler was delayed on files such as glass claims which were received with repair invoices.
- The claim file contained repair estimates, however the claim handler was waiting for proof of repair. This is not required to pay a claim.

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- One file contained unpaid bills from medical providers. The examiners returned this file to the company for payment of \$475 to a medical provider and \$26.78 to the insured.

1044595	1045152	1043271	1043874
2727652	1066519	1064695	1052938
1046940			

WAC 284-30-340 requires claim files to contain all notes and work papers pertaining to the claim in such detail that pertinent events and the dates of such events can be reconstructed. Fifteen files did not contain documentation of phone calls, explanations or dates of coverage resolution, or the notes lacked sufficient detail to satisfy the requirements of the regulation.

1062171	1045093	2728564	1043177
1054263	2733935	1049675	1041772
1038421	1043730	1048411	2731548
1055975	1046940	1052019	

WAC 284-30-360 (1) and (3) require every insurer to reply within 10 working days to pertinent communications regarding claims, on all communication which reasonably suggest that a response is expected. If the acknowledgment is made by other means than in writing, the file notes must contain an appropriate log note. Thirty-five (35) files contained letters of representation from attorneys or subrogation notices from other insurance carriers, and one (1) file contained unpaid medical bills that were not acknowledged as required by the law. Some files are listed more than once as they contained multiple violations

*Attorney's letter of representation letters*

1050379	1064168	1043394	2729740
1053541	2728564	1061659	2734192
1043493	2729078	1043688	1043703
1065297	1049693	1043610	

*Subrogation letters from other carriers*

1052019	1043622	2728564	1061659
1045093	1041561	2729740	1043622
1044633	1043493	1043245	1065297
1043688	1045806	1066758	1043813
2731411	1065641	1043610	1050386

*Other correspondence (Medical bills)*

1045152

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WAC 284-30-370 requires insurers to complete the investigation of a claim within thirty days after notification of the claim, unless such investigation cannot reasonably be completed within such time. Eleven files (11) did not comply because there was nothing in the log notes to indicate why the investigation took longer than 30 days, or it was evident to the examiners that the claim handlers were responsible for the delays.

1052245	2733935	1062899	1052172
1043394	1052019	1049704	1055993
2733918	1043221	1043735	

WAC 284-30-390 (1)(a) and (b) defines the process for establishing the actual cash value of a total loss vehicle and require all applicable taxes and license fees be included in the settlement of first party total automobile losses. The following 47 files did not meet this requirement. Additional payments totaling \$5994.92 were made to insureds as a result of this examination of total loss claims.

1041772	1070663	1062171	1070922
1065688	1069242	1043786	1058324
1071158	1065425	1065505	1053780
1066399	1050868	1060188	1046120
1044652	1059506	1046309	1046039
1040668	1053123	1049076	1067322
1041561	1045093	1063472	1077797
1043819	1066204	1043364	1072396
1038247	1043732	1037434	1045100
1069094	1057410	1043610	1046957
1043735	1050386	1062642	1046940
1068844	1048654	1045685	

WAC 284-30-395 (1) requires insurers to provide an insured presenting a claim for personal injury protection (PIP) a written explanation of the coverage provided by the policy. This explanation must include the circumstances that would allow the company to deny, limit or terminate benefits. The company acknowledged that this was not done on any PIP claims. There were 299 PIP claims closed during the exam period. The eight files listed are examples of the violations noted in the exam sample.

1045152	2734192	1061659	1043620
1054269	1043723	1046611	1046940

RCW 46.12.070 and WAC 308-58-020 require the insurer settling a total loss to notify the Department of Motor Vehicles (DMV) and to surrender the title to the Department of Licensing (DOL). The total losses in the sample were handled in two ways. In some cases the titles were handled appropriately and the titles were marked "destroyed," and were sent to the DOL as required. In other cases the company transferred this responsibility to their salvage contractor.

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In these cases there was no paper trail indicating that the title had been handled appropriately. When asked about this, the company was able to provide documentation from the salvage contractor that the titles had been sent to the DOL. The following files did not contain evidence that the total loss paperwork was processed correctly.

1046940	1070922	1066097
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Subsequent Event: The company provided examiners with a memo sent to all offices handling Washington claims. This memo explains the new procedures implemented to address the violations noted in this examination.

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## INSTRUCTIONS AND RECOMMENDATIONS

### INSTRUCTIONS

1. The company is instructed to respond to inquiries from the Insurance Commissioner's office pursuant to the requirements of WAC 284-30-360(2) (page 5)
2. The company is instructed to include the legal name of the company in all written correspondence as required by RCW 48.05.190(1). (page 6)
3. The company is instructed to include a statement setting forth coverage under which a benefit is paid with all payments, and to ensure that all payments are made pursuant to WAC 284-30-330(9) and (16). (page 6)

4. The company is instructed to comply with WAC 284-30-340 regarding documentation of dates and pertinent events in all claim files. (page 7)
5. The company is instructed to require claim handlers to respond to all pertinent communications regarding claims within the 10 day time frame established in WAC 284-30-360(1) and (3). (page 7)
6. The company is instructed to comply with WAC 284-30-370 regarding prompt investigation of a claim. (page 7)
7. The company is instructed to evaluate total losses according to the methods established in WAC 284-30-390(1) and 1(b). The company is further instructed to eliminate the practice of deducting sales tax and transfer fees from owner retained total loss settlements. (page 8)
8. The company is instructed to send a written explanation of personal injury protection (PIP) coverage and circumstances that would allow the company to deny, limit or terminate PIP benefits to each insured applying for benefits pursuant to WAC 284-30-395(1). (page 8)

## RECOMMENDATIONS

1. It is recommended that the company conduct semi-annual internal audits focusing on compliance to Washington law.
2. It is recommended that a copy of the Washington Administrative Code Title 284 which contains the Unfair Claims Settlement Practices be provided to every claim office servicing Washington claims.
3. It is recommended that the company establish subrogation procedures to refund portions of deductibles to insureds when further collections appear unlikely.